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RUEHLH/AMCONSUL LAHORE PRIORITY 2694
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C O N F I D E N T I A L SECTION 01 OF 02 KARACHI 000112

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TAGS: [EAIR](#) [ECON](#) [ETRD](#) [PREL](#) [PK](#)

SUBJECT: SINDH - PIA PLANS NEW AIRPLANE PURCHASES BUT CAA
DOUBTS AIRLINE CAN AFFORD IT

Classified By: CLASSIFIED BY ACTING CONSUL GENERAL CATHERINE RODRIGUEZ
FOR REASONS 1.4 b and d.

¶1. (C) Summary: In a March 24 meeting, Pakistan International Airlines (PIA) Managing Director Aijaz Haroon told Islamabad Econ Counselor and Consular Officials that his airline hopes to purchase new Boeing aircraft and add new routes in the coming year. Haroon also said PIA, aided by lower fuel prices, had made a profit in the last quarter and expected this trend to continue. To further reduce costs for the airline, PIA is expected to move to a single airline fleet, jettison the A-310's in favor of Boeing 737's. However, in a separate meeting, Civil Aviation Authority (CAA) Deputy Director General Habib said PIA had been "hemorrhaging funds," and doubted the airline could afford new planes. Habib was complimentary of Shaheen Airlines, which has recently expanded its operations, and categorized Air Blue as mismanaged. End summary.

New Airplanes on the Horizon?

¶2. (C) During a March 24 meeting with Islamabad Econ Counselor, PIA Managing Director Aijaz Haroon said Pakistan International Airlines (PIA) officials recently met with Boeing and Airbus and received attractive offers to purchase new airplanes. Haroon said PIA would like to purchase 27 new airplanes to replace its mixed fleet of aging Airbus A-310s and Boeing 737s. (Note: The Airbus aircraft in the PIA fleet are leased. According to Boeing officials, these planes have not been successfully integrated into the total fleet and are expensive to operate. Boeing believes that Haroon and PIA are willing to go to an all-Boeing fleet, but that competition with Airbus will be cut-throat. End note.)

¶3. (C) Haroon spoke frankly about Pakistan's economy, calling the country's problems "serious." He said PIA had recently received 7,000 applications for 200 entry level positions. He said while the Government of Pakistan (GOP) would like to help PIA, it lacks the necessary resources, and hinted that the IMF or international donors might be willing to help, a notion that we did not encourage.

PIA Making Money

¶4. (C) Haroon told Econ Counselor that PIA had been profitable in the last quarter and would continue to make money "as long as oil remained below \$60 a barrel." But he

admitted that much of the airline's revenue goes to pay back loans taken to cover past losses. Haroon believes PIA is in better shape than other airlines in the region. He said he learned at a recent airline conference in India that PIA was currently in a better competitive position than Air India, Jet Airways, and Indigo Air because, unlike these Indian airlines, PIA does not have an excess capacity problem.

Not Afraid of the Competition

¶5. (C) When Econ Counselor asked Haroon about competition from Air Blue, he said PIA has not been hurt, and that Air Blue was poorly managed and had expanded too quickly. He pointed out that Air Blue recently reduced its flights to Manchester from seven to four times per week. Haroon said when he learned that Air Blue used income from UN charters to undercut PIA's fares, PIA went head to head with Air Blue to compete for UN business ferrying UN peacekeeping forces.

A Modest Proposal

¶6. (C) Haroon said he made a presentation at the India conference calling for increasing the number of tourist visas issued by both India and Pakistan in order to promote travel between the two countries as a way to grow airline business. He admitted his idea was poorly received and was probably "premature." Haroon would also like the two countries to share engineering and training facilities. PIA currently sends engines to KLM facilities in Holland for maintenance

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and its pilots go to Dubai and Cairo for periodic training.

Religious Tourism

¶7. (C) Haroon believes religious tourism geared towards Muslims and Sikhs visiting holy sites in India and Pakistan would help the region's economy and ease tensions. Haroon believes his ideas would work, but require leadership to initiate.

New Flights

¶8. (C) Haroon said PIA will commence new flights to Frankfurt and Barcelona. He said he saw a business opportunity because Barcelona is home to 50,000 Pakistanis, many of whom were recently granted legal immigrant status by Spain, and are now more likely to travel. Haroon opined that neither Lufthansa nor British Airways (BA) will return to Pakistan this year. In fact, PIA has asked for permission to use some of BA's slots at Heathrow Airport. Haroon also said PIA's daily flights to London, especially business class seats, are completely sold out.

CAA Claims Huge Losses at PIA

¶9. (C) Civil Aviation Authority Deputy Director General Air Vice Marshall Sajid Habib presented a different view of PIA in a meeting March 25, noting that over the years PIA had lost "substantial" sums of money, and that the airline currently loses around USD \$50 million a month. Habib called PIA a "mismanaged state-run company," claiming that PIA has 564 employees per aircraft, while the industry standard is ¶214.

Can PIA Afford New Planes?

¶10. (C) When Econ Counselor raised the issue of PIA's plans to purchase additional planes, Habib said he doubted PIA could afford this. Habib praised Pakistan's two private

airlines, Air Blue (started by a former PIA director) and Shaheen, run by a former Pakistan Air Force officer who had made a fortune in real estate in Canada, for their efficient, cost-conscious operations - again a markedly different assessment from Haroon's.

¶11. (C) Comment: Given the GOP's financial situation and pressure by the IMF to reduce spending, its ability to provide financing to PIA will be minimal. While Haroon's attitude towards India seemed sincere and forward-looking, he admitted that last year's Mumbai attack is still an open wound between Pakistan and India.

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